

State Notes

TOPICS OF LEGISLATIVE INTEREST

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Michigan Veterans Trust Fund Board Votes to Suspend Tuition Program; Legislature Responds

By Bruce R. Baker, Fiscal Analyst

The Michigan Veterans Trust Fund (MVTF) Board voted recently not to fund for fiscal year (FY) 2005-06 the Children of Veterans Tuition Grant Program, a higher education tuition assistance program for survivors of Michigan military service members who either were killed or suffered 100% disability as a result of their military service.

The action represents the MVTF Board's solution to the longstanding competition for MVTF funding between two State veterans benefit programs: the Emergency Grant Program and the Children of Veterans Tuition Grant Program.

The MVTF was created under the authority of Public Act (P.A.) 4 of 1946 to establish a post-WWII reserve fund for military service veterans and dependants. An MVTF Board was later created to administer the Emergency Grant Program, a program to provide temporary assistance to the State's veterans and dependants during times of personal emergency. The Board allocates annual interest earnings from an original \$50.0 million MVTF balance to fund grants issued through a network of local MVTF committees in each of the State's 83 counties. The MVTF Board provides oversight and is responsible for policy. The Board membership consists of seven representatives who are nominated from various veterans' service organizations and appointed by the Governor.

The Emergency Grant Program has issued over \$89.0 million in grants over the years, funded by the MVTF. Grant awards most commonly go to provide temporary help with utility costs, rent, mortgage payments, food, taxes, and medical bills. The total amount in Emergency Grants paid in FY 2004-05 is estimated to be approximately \$666,500, distributed to approximately 1,100 recipients.

The Children of Veterans Tuition Grant Program was created under P.A. 245 of 1935. This program assists children of Michigan veterans who were killed, died from disabilities, or are judged to be 100% disabled, as a result of military service-related injuries. A child may receive up to \$2,800 annually for undergraduate tuition costs. From 1935 to 1966, this program was administered and funded through the Department of Education with General Fund money. It was placed under the administrative control of the MVTF Board of Trustees by P.A. 371 of 1965, effective March 1966, and since that time over \$20.0 million in tuition assistance has been paid out with funds provided by the MVTF. The total amount in Tuition Grant Program grants paid in FY 2004-05 is estimated to be approximately \$900,000, paid out to approximately 400 recipients.

The MVTF Board's vote attempted to address concern over how the cost of the Children of Veterans Tuition Grant Program, paid for by the MVTF, has negatively affected the amount of MVTF revenue available for the Emergency Grant Program, the original purpose of the MVTF. Many in the veteran community have long voiced objection to the Tuition Grant Program's being a part of the MVTF. During FY 1967-68 and FY 1968-69, the addition of the Tuition Grant Program to the responsibilities of the MVTF had little impact, as the State provided a General Fund appropriation to fund the program for each of those two years.



Beginning with FY 1969-70, however, General Fund support was withdrawn and the cost of the grants was assumed by the interest earnings of the MVTF, the same source of support for the Emergency Grant Program.

For many years, the Tuition Program MVTF payout represented a third or less of what the Emergency Program received. Over time, however, with the rise in tuition costs and a reduction of interest earned by the MVTF, the MVTF Board found that without appropriating funds from the MVTF corpus itself (as has been done in recent years, lowering the book value of the former \$50.0 million fund in October 2002 to \$46.1 million as of August, 31, 2005), the money paid to the Tuition Grant Program would exceed greatly that paid to the Emergency Program. This occurred for the first time in FY 2003-04 (\$598,403 for the Emergency Program and \$920,863 for the Tuition Program).

The Board's unanimous 7-0 vote on September 13, 2005, to suspend tuition payments from the MVTF for FY 2005-06, should it stand, will allow the funds provided for the Emergency Program to rise from \$666,500 in FY 2004-05 to approximately \$1,060,000 in FY 2005-06. In addition, the Board will no longer engage in the questionable practice of allocating funds from the MVTF corpus; only those from the projected interest revenue of \$2.0 million available for FY 2005-06 will be allocated. Table 1 provides a summary of MVTF expenditures in FY 2004-05, and numbers for FY 2005-06 reflect the distribution of funds if the action of the Board is followed. No estimate of the FY 2005-06 costs for Tuition Grants has been made by the MVTF administration, but should the cost continue to be \$900,000 for FY 2005-06 as it was in FY 2004-05, and if it were to be included in the Board's budget, the amount of MVTF revenue left for the Emergency Grant Program would be \$160,000 for FY 2005-06, barring any additional allocation of MVTF corpus funds.

Table 1

Michigan Veterans Trust Fund Expenditures		
	FY 2004-05	FY 2005-06
MVTF Central Administration	\$746,000	\$700,000
MVTF County Administration	240,000	240,000
Emergency Grant Program	666,500	1,060,000
Tuition Grant Program	900,000	0
Total MVTF	\$2,552,500	\$2,000,000
Note: Figures are estimates. Allocations for FY 2005-06 administrative costs reflect efficiencies taken. Total MVTF revenue listed for FY 2004-05 includes approximately \$300,000 in funds allocated from the MVTF corpus; the FY 2005-06 amount consists only of interest earnings from the MVTF.		

Source: Department of Military and Veterans Affairs

It should be noted that this is not the first time the MVTF Board has voted to suspend Children of Veterans Tuition Grant Program payments—it previously did so on June 6, 1995. Later, the Board recanted, in reaction to then-Governor Engler's negative reaction to the Board's action and an Attorney General letter opinion dated August 1, 1995, stating that the



Board could not suspend payments and was required to administer the program as mandated by the Legislature and its own rules.

The Board's position on its most current action is that it is entirely legal and proper in light of an amendment to Article IX of the Michigan Constitution of 1963, approved by the voters on November 5, 1996 (H.J.R. H.), which placed in the Constitution the authority of the MVTF Board to determine, by a majority vote, the expenditure of MVTF assets. This position is open to legal interpretation, of course.

The immediate impact of the MVTF Board's vote, assuming no other action is taken, will be felt by those Tuition Grant Program participants who may be counting on tuition support for winter term, 2006, as this fall's tuition payments are paid out under FY 2004-05 appropriations (when the program was fully funded). To date, no reaction or plan of action on how to respond to this inevitability has been forthcoming from either the Department of Military and Veterans Affairs or the Governor's office. According to the Department, the Governor's office was informed by letter on September 16, 2005, of the Board's action and legislative leadership was notified on September 14, 2005. On October 7, 2005, letters went out to all of the Tuition Grant Program participants notifying them of the Board's action and the ending of the MVTF-supported program beginning January 2006.

It also should be noted that the recent action of the Board is not reflected in the FY 2005-06 budget enacted for the Department of Military and Veterans Affairs (P.A. 145 of 2005), or in any testimony given by the Department during budget hearings. The Act does make clear, under Section 705, the Legislature's interest in both finding an alternative fund source for the Tuition Program and subsequently ceasing expenditures from the corpus. To this end, Senator Brown introduced Senate Bills 80 and 81 and Representative Caul introduced House Bills 4001 and 4002 (which passed the House on March 22, 2005), to shift the administration of the Tuition Program away from the MVTF.

A bill package, consisting of House Bills 4001, 4002, and 5091, eventually passed both legislative chambers and was sent to the Governor for signature on November 10, 2005. House Bills 4001 and 4002 sever the relationship between the Children of Veterans Tuition Grant Program and the MVTF, shifting responsibility for administering the program from the MVTF to the Michigan Higher Education Assistance Authority within the Department of Treasury, which administers other tuition grant programs. While these two bills remove the responsibility for the administration and funding for the program from the MVTF, they do not provide for a fund source for the grants. House Bill 5091 would address, to a certain degree, the funding issue by providing for a Michigan income tax check-off option for those wishing to donate a portion of their tax refund or make a contribution to support the grant program. If enacted, this bill could lessen, or potentially eliminate, the need for annual GF/GP support for the program, currently estimated at \$900,000.

Should the above bills become enacted, the problem of how to fund the program beginning in January 2006 will remain. Should the Legislature choose to ensure funding for the projected cost for the program from January 1, 2006, to the end of FY 2005-06, it would require an appropriation of approximately \$500,000.